

Honorable Thomas S. Zilly

UNITED STATES DISTRICT COURT  
WESTERN DISTRICT OF WASHINGTON AT SEATTLE

VALVE, L.L.C., a Washington limited liability  
company,

Plaintiff,

v.

SIERRA ENTERTAINMENT, INC., (aka  
SIERRA ON-LINE, INC.),

Defendant.

No. CV02-1683

SIERRA'S REPLY IN SUPPORT  
OF ITS MOTION FOR  
PROTECTIVE ORDER

**NOTE ON MOTION**  
**CALENDAR August 29, 2003**

**ORAL ARGUMENT  
REQUESTED**

**I. INTRODUCTION**

In this claim for infringement of U.S. copyright, Defendant Sierra has produced or will produce all documentation regarding licensing of cybercafés in the United States, as well as U.S.-based activities concerning licensing of Valve games to cybercafés overseas. Plaintiff Valve desires exhaustive global discovery concerning Sierra's activities anywhere in the world (even activities unrelated to Valve games!) hoping to find some evidence to support a claim that overseas activities constitute a violation of U.S. copyright law. Foreign activities of Sierra and its distributors cannot violate Valve's U.S. copyright. Sierra thus seeks the Court's order limiting discovery in this case to alleged acts of copyright infringement occurring within the territorial boundaries of the U.S.

## **II. SIERRA'S REPLY**

#### A. Valve Has Misconstrued the *Los Angeles News Service* Case

Throughout Valve's Response Brief, Valve asserts that *Los Angeles News Service v. Reuters Television Int'l Ltd.*, 149 F.3d 987 (9th Cir. 1998), provides a "predicate act" exception to the extraterritoriality application of the Copyright Act." (Valve Brief pp. 2-3) Valve is wrong; *L.A. News* holds only that a plaintiff may recover damages for the overseas exploitation flowing from domestic acts of infringement. *L.A. News* does not create an exception to the rule that copyright law has no extraterritorial application. To the contrary, *L.A. News* reaffirms the requirement that a plaintiff asserting U.S. copyright infringement must identify a completed domestic violation of at least one of the six enumerated rights found in 17 U.S.C. § 106(1)-(6) as a condition precedent to the recovery of damages for overseas exploitation. In *L.A. News*, an act of infringement was completed in the U.S. (making an unauthorized copy of the videotape) and the court explicitly recognized that transmission of the tape's content overseas was not an infringing act. 149 F.3d at 992. ("While the extraterritorial damages resulted from Reuters's overseas dissemination of the works received by satellite transmissions from Visnews and EBU, those transmissions were made possible by the infringing acts of copying in New York. The satellite transmissions, thus, were merely a means of shipping the unlicensed footage abroad for further dissemination."). In stark contrast to *L.A. News*, Valve cannot identify a completed domestic act of infringement in violation of any § 106 right with respect to Sierra's foreign cybercafé licensing.

#### **B. No Domestic Act of Infringement In Foreign Cybercafé Licensing**

Valve, hoping to evade the rule articulated in *Subafilms*, claims that Sierra committed a domestic act of infringement in licensing foreign cybercafés. Valve's conclusory arguments, however, cannot justify the burden of global discovery.

1       **1. Valve Cannot Assert Domestic Breach of the Reproduction Right,  
Section 106(1)**

2           **a. Sierra's reproduction is authorized**

3       In order to infringe the reproduction right, 17 USC § 106(1), a defendant must  
4 (without authorization) embody the plaintiff's work in a "material object." *See Walker v.*  
5 *University Books Inc.*, 602 F.2d 859 (9th Cir. 1979). Valve does not dispute that Sierra has  
6 the right to replicate Valve's software on tangible media as Retail Packaged Product. Valve's  
7 claim seems to be that once a foreign cybercafé acquires and installs authorized Retail  
8 Packaged Product and begins leasing playing time of the game, the long-past act of U.S.  
9 replication becomes an infringing act.

10      As Eric Roeder's declaration clarifies, the software used at cybercafés is indeed Retail  
11 Packaged Product; it is identical to the software replicated for distribution in other retail  
12 channels (Roeder Decl., ¶ 8). Valve does not dispute that the software used by cybercafés  
13 (which not incidentally is the only copyrighted subject matter at issue) does not differ from  
14 the software distributed in other retail channels. Even if, as Valve claims, Sierra had no right  
15 to authorize cybercafés to rent or lease the Retail Packaged Product, Sierra undisputedly had  
16 the right to replicate that product in the U.S. The only remaining question is whether the  
17 actions of Sierra's affiliates in authorizing foreign cybercafés to use the software is cognizable  
18 as a violation of U.S. copyright law. *Subafilms* answers that question: "no."

19      Valve tries to invent a new theory for infringement of the reproduction right by  
20 arguing that Sierra's state of mind or intent at the time of domestic replication should be  
21 considered. Valve argues that replication "domestically for the purpose of putting [the  
22 CD-ROMs] in the hands of cybercafés worldwide" (Valve's Response at p. 7) is a domestic  
23 infringement under *L. A. News*. Valve is wrong because the *L. A. News* opinion does not look  
24 at the "purpose" of domestic acts, but whether an initial act of unauthorized copying occurred  
25 within the U.S. *See* 149 F.3d at 992. In any case, Sierra's state of mind or its "purpose" is  
26 irrelevant to liability under § 106, *Los Angeles News Service v. Conus Communications Co.*

1 *Ltd. Partnership*, 969 F. Supp. 579, 584 (C.D. Cal. 1997); *Broadcast Music, Inc.* v. 84-88  
 2 *Broadway, Inc.*, 942 F. Supp. 225, 231 (D.N.J. 1996).

3           **b. U.S. Replication Limited to Only Four Foreign Countries**

4       Even if we accept Valve's argument (i.e., that replication in the U.S. with the  
 5 "purpose" of delivering to cybercafés abroad is a domestic infringement), Valve is only  
 6 entitled to limited discovery concerning cybercafé licensing in four foreign countries and  
 7 regions: Singapore, Malaysia, Hong Kong and Taiwan. These are the only countries and  
 8 regions for which Sierra's Vivendi Universal Games ("VUG") has (1) licensed Valve games to  
 9 cybercafés and (2) shipped CD-ROMs replicated (copied) in the United States. (Declaration  
 10 of Kirstin Wineke, ¶ 3). The "predicate act" Valve asserts, that is, making the copies in the  
 11 U.S., does not exist for any of the other foreign countries where Valve games have been  
 12 licensed to cybercafés because product is replicated in those countries (Wineke declaration ¶¶  
 13 4, 5).

14           **2. Valve Cannot Assert Domestic Breach of the Distribution Right,  
 15           Section 106(3)**

16       Valve's search for a domestic act of infringement also includes vague references to a  
 17 domestic "distribution" of Valve's software in connection with the licensing of cybercafés  
 18 abroad. (Valve's Response p. 7 "Sierra reproduced and distributed Valve products for  
 19 shipment overseas for use other than as retail packaged product.") Once again, even if Sierra  
 20 cannot authorize cybercafés to rent or lease the retail packaged product, Valve has no claim  
 21 under U.S. copyright law. A violation of the distribution right, § 106(3), requires actual  
 22 dissemination of copies to the public. *See e.g., Hotaling v. Church of Jesus Christ of Latter*  
*23 Day Saints*, 118 F.3d 199, 203 (4th Cir. 1997); *National Car Rental Systems, Inc. v. Computer*  
*24 Associates Int'l, Inc.*, 991 F.2d 426, 434 (8th Cir.), cert. denied, 114 S. Ct. 176 (1993). Valve  
 25 can identify no act of dissemination of software to the *domestic* public in connection with the  
 26 distribution of product to *overseas* cybercafés. The "distribution" contemplated in § 106(3)  
 27 does not occur until the software reaches the foreign public. *Allarcom Pay Television, Ltd. v.*

1     *General Instrument Corp.*, 69 F.3d 381, 387 (9th Cir. 1995) ("the potential infringement was  
 2 only completed in Canada once the signal was received and viewed")

3                   **3.       Valve Identifies No Domestic Breach of Any Remaining Right in  
 4                   Sections 106(2) or (4)-(6)**

5                  Regarding the remaining exclusive rights enumerated in § 106, Valve does not  
 6 argue -- nor can it -- that the software installed at a cybercafé is somehow a "derivative work"  
 7 within the meaning of § 106(2), nor does Valve assert that any other exclusive right such as  
 8 those codified in §§ 106(4)-(6) as occurring domestically within the meaning of *L. A. News*.  
 9 The gravamen of Valve's complaint is that the use of its games in a cybercafé is a public  
 10 performance, and only alleged performances in the U.S. are cognizable under U.S. copyright.

11                  **4.       Discovery Regarding Overseas Licensing Will Not Yield Facts Showing a  
 12                   Predicate Act of Domestic Infringement**

13                  At page 3 of Valve's Brief, Valve argues that it needs discovery in order to find a  
 14 "domestic predicate act of infringement" falling within the ambit of *L. A. News*. This  
 15 argument is nonsensical because to the extent *L. A. News* requires evidence of a domestic act,  
 16 this evidence will be found within the United States. Valve, however, wishes to embark on an  
 17 expensive and burdensome global fishing expedition, when the only evidence it could rely on  
 18 -- if indeed any exists -- is in the U.S., and Sierra has agreed to open its U.S. files related to  
 19 overseas licensing.

20                  **C.      The Issue of Extraterritoriality is at the Heart of Fair Limits to Discovery**

21                  At page 7 of its Brief, Valve asserts that "for the purposes of discovery, the question of  
 22 whether some of Sierra's activities may be shielded by the extraterritoriality doctrine is not  
 23 ripe." In support of this position, Valve cites *Golden Valley Microwave Foods v. Weaver*  
 24 *Popcorn Co.*, 130 F.R.D. 92, 95 (N.D. Ind. 1990). This case from the Northern District of  
 25 Indiana cannot possibly counsel this Court's decision regarding how best to limit Valve's  
 26 incredibly broad discovery requests for global discovery relating to completely irrelevant  
 27 factual inquiries overseas. *Golden Valley* deals with a patent infringement lawsuit where

1 requests for admission, relating to unasserted claims, were deemed relevant because the  
 2 justifiability of defendants declaratory judgment counterclaim of invalidity was not ripe for  
 3 determination, primarily because the counterclaim also contained an allegation of inequitable  
 4 conduct. Sierra's defense based on extraterritoriality is at the heart of this discovery dispute  
 5 because Valve seeks exhaustive global discovery that will unnecessarily complicate matters.

6 **D. Adobe Systems Inc. Is Consistent With Sierra's Discovery Position**

7 Valve argues at length that the case, *Adobe Systems Inc. v. One Stop Micro, Inc.*, 84  
 8 F. Supp. 2d 1086, 1093 (N.D. Cal. 2000), requires the Court to deny Sierra's motion and grant  
 9 Valve's Motion to Compel. The *Adobe Systems, Inc.* case is consistent with Sierra's position  
 10 in the present discovery dispute. Sierra does not deny that Valve can allege copyright  
 11 infringement due to alleged acts "outside of the scope" of Sierra's license. Allegations of U.S.  
 12 Copyright infringement for these "acts," however, cannot seek redress for foreign conduct.

13 **F. Sierra's Counterclaim Does Not Seek an Adjudication of Sierra's Rights Under  
 14 Foreign Copyright Laws**

15 At page 7 of its Brief, Valve alleges that the existence of Sierra's counterclaim for  
 16 declaratory relief compels the requested discovery. The respective rights of Sierra and Valve  
 17 are determined from the terms of the Software Publishing Agreement, or if those terms are  
 18 ambiguous, from the facts concerning the parties' intent. All of that information is in the  
 19 United States. The counterclaim requires no discovery of overseas activities.

20 **CONCLUSION**

21 Valve can identify no predicate domestic act of infringement connected to Sierra's  
 22 overseas licensing of cybercafés, hence the *L. A. News* case is inapplicable. Because the  
 23 requested discovery would create an immense burden on Sierra and overly complicate the  
 24 present case which is so limited to violations of U.S. copyright law. Accordingly, its Motion  
 25 to Compel should be denied

1 Dated this 28<sup>th</sup> day of August, 2003.  
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